

**HUNTON &  
WILLIAMS**

**HUNTON & WILLIAMS  
USAID UKRAINE**

**ENERGY LEGAL, REGULATORY  
AND MARKET REFORM PROJECT**



Prepared for:

U.S. Agency for  
International Development

IQC No:

EEU-I-00-99-00033-00

Task Order No:

OUT-EEU-I-800-99-00033-00

3<sup>rd</sup> QUARTERLY REPORT

DECEMBER 2000  
FEBRUARY 2001

Paul F. Mulligan  
Director, Office of Economic Restructuring  
U.S. Agency for International Development  
Regional Mission for Ukraine, Belarus & Moldova  
19 Nizhniy Val St.  
04071 Kyiv, Ukraine

13 March 2001

**RE: Task Order Out-EEU-1-800-99-00033-00**  
**Energy Legal, Regulatory And Market Reform Project**  
**Quarterly Report for December 2000 through February 2001.**

Dear Paul,

Enclosed is the Quarterly Report for the period December 2000 through end of February 2001 , required by our Task Order OUT-EEU-1-800-99-00033-00.for the Ukraine Energy Legal, Regulatory and Market Reform Project. We provide this to you at the CTO or our Scope of Work..

We regard the "Inception Report" provided in early December to Tom Broderick as being also our quarterly Report for the period September 200 through November 2000.

Sincerely,

Paul Ballonoff  
Chief of Party,  
Hunton & Williams,  
Kiev Project Office

Cc: Julia Weller  
Project Director, Hunton and Williams

**HUNTON & WILLIAMS - USAID UKRAINE  
TASK ORDER OUT-EEU-1-800-99-00033-00  
ENERGY LEGAL, REGULATORY AND MARKET REFORM PROJECT**

**QUARTERLY REPORT: DECEMBER 2000 – FEBRUARY 2001**

**A. PURPOSE AND OUTLINE OF QUARTERLY REPORT**

**A.1. PROJECT PURPOSE AND FOCUS OF WORK**

Hunton & Williams has been awarded Indefinite Quantities Contract EEU-I-99-00033-00 (the “IQC”) by the United States Agency for International Development (“USAID”) through which USAID awarded Task Order OUT-EEU-I-800-99-00033-00 (the “TOR”) to Hunton & Williams to provide certain legal, regulatory and wholesale electricity market advisory services in support of Ukraine’s energy sector privatization program (the “Project”). To those ends, we are expected to, and successfully do, work with diverse counterparts within the Government of Ukraine (“GOU”) as well as coordinate our activities among the international donor community.

We continue to believe we can best summarize the work as principally serving three functional headings, working to:

- ***Strengthen the independence and functionality of the power sector regulator*** – presently the National Electricity Regulatory Commission (“NERC”);
- ***Improve the operation and governance of the wholesale electricity market*** (“WEM”); and
- ***Ensure the success of GOU’s energy sector privatization program*** in concert with USAID contractor Deloitte Touch Tomatsu (“DTT”) – the USAID contractor with primary responsibility to advise the State Property Fund of Ukraine which conducts the privatization of all state entities as the agent of the government.

To achieve each of these goals, we actively work with all GOU counterparts – the Verkhovna Rada of Ukraine (the “Verkhovna Rada”), NERC, the Ministry of Fuel and Energy (“MFE”) and Energorynok State Enterprises (“Energomarket”) – to identify the impediments to achieve our goals, develop precise mechanisms to remove those impediments and then implement those mechanisms.

Specifically, to strengthen NERC, we are implementing the following initiatives:

- Pass new legislation that provides political and financial independence and establishes standards for the energy sector that shall be regulated by NERC.
- Detail a tariff methodology responsive to the privatization effort and current market realities.
- Develop a mechanism for modifying the NERC-established algorithm that controls the flow of funds through the WEM.

To improve operation and governance of the WEM, we are pursuing the following objectives:

- We assisted the executive board of the WEM (the “WEM Board”) to contract for an independent auditor to scrutinize the flow of funds and power through the WEM transit accounts and Energomarket, the WEM settlement administrator.
- Implement appropriate legislation on the WEM structure that completes the existing WEM framework established through the Members’ Agreement.
- Prepare the WEM for a fully functioning WEM, including bilateral contracting, by improving information technology and metering at the WEM and Energomarket levels.

To ensure the success of GOU’s energy sector privatization program, we are undertook the following in the third quarter of our project activity:

- Worked closely with the NERC to develop and implement a tariff methodology suitable to attract new strategic investors to participate in the privatization of the oblnergos in Ukraine, and to assure their continued viability;
- Advised DTT and Credit Suisse First Boston (“CSFB”) – the investment bank hired by GOU to conduct the first tranche of energy sector company privatization sales, including a legal review of the draft Purchase and Sale Agreement (PSA), review of the Privatization Tender Rules of the State Property Fund (SPF), to assist to construct and track the “matrix” used to maintain coherent direction of the process by tracking the status of issues to be resolved, and assisted in related documents. We also drafted proposed Cabinet of Ministers Resolutions related to land and environmental issues.
- Actively and successfully engage the MFE, the Energomarket, the Verkhovna Rada and the Cabinet of Ministers of Ukraine (“CabMin”) to develop an appropriate short- and long-term resolution to sector debt issues.
- Regularly meet with potential strategic investors to share our knowledge on legal and regulatory issues impacting the energy sector.
- Support the energy task force created by GOU and the international donor community – consisting of USAID, the European Bank for Reconstruction and Development (“EBRD”), the International Monetary Fund (“IMF”) and the World Bank – (the “Task Force”) through drafting joint documents and implementing the action items emerging from Task Force meetings. In that role we drafted a letter for use by the US Ambassador to deliver to the Prime Minister Yushenko, supporting changes to the draft Cabinet of Ministers Resolution related to privatization issues.
- Coordinated work among the international donor community to ensure a common focus on and support of an acceptable outcome for GOU’s energy sector privatizations.

## **A.2. OUTLINE OF THIRD QUARTERLY REPORT**

This inception report summarizes the conditions found and results achieved for the period from December 2000 through February 2001, the current status of work, and anticipated activities in the near to medium term.

This report consists of six sections:

- Part B contains an overview of the current status of the project.
- Part C details our relationship with each GOU counterpart, highlighting the current focus of our work.
- Part D summarizes our work in direct support of the privatization effort,
- Part E summarizes our work with the Task Force and the international donor community.
- Part F summarizes the status of our training program
- Part G notes additional services, including a request from the United States Embassy, conveyed through USAID, to assist in analysis of gas pipeline issues.

## **B. OVERVIEW OF CURRENT STATUS OF THE PROJECT**

The design and implementation of the Hunton and Williams project work remains as summarized in the December 2000 Inception Report, which was also our Second Quarterly Report. The principal change is that on February 1, 2001 the Government decided to delay the due dates for tenders of the six oblenergos until April, from the original February dates. This has had the practical effect of involving the Hunton and Williams team much more deeply into the mechanics of finalizing the documents related to the privatization, including drafting proposals for Cabinet of Ministers resolutions treating various investor interests. These have included texts on land transfer issues, environmental liability, removal of full-paying oblenergos from the transit account mechanism, revisions to the proposed power purchase agreements, and so forth. In addition, the work on the tariff method became extended, beyond the expected completion date of early February. Thus the Hunton and Williams team worked extensively with the NERC to refine the tariff method.

## **C. RELATIONSHIPS WITH COUNTERPARTS**

### **C. 1. BACKGROUND**

The TOR identifies four primary counterparts for the Project: NERC, the Energomarket, the Verkhovna Rada, and the MFE. The Memorandum of Understanding between the Government of the United States and the GOU, dated \_\_\_\_\_, ("MOU") created the basis for establishing the relationships with the GOU counterparts identified in the TOR. We summarize our work to achieve Project goals with each GOU below.

## **C.2. NATIONAL ELECTRICITY REGULATORY COMMISSION**

In 1996, in part through the diligent efforts of USAID, the President of Ukraine created NERC by decree as an independent energy sector regulatory commission. Supporting NERC's continued development and working with NERC to support GOU's privatization effort remains a key focus of our Project. Project relations with NERC are good, bolstered, in part, through our second Project office located within the NERC building. We meet with NERC counterparts daily and have a routine, weekly meeting with the NERC Chairman and other commissioners to discuss and coordinate on-going issues. Through the first nine months of the Project, four issues have dominated our work with NERC: draft law on regulatory commission; tariff methodologies and rate design; due process; algorithm. Each issue is briefly discussed below.

### **C.2.1. Regulatory Commission Law**

In Part C.5. below, we detail the history of our legislative efforts to develop and pass legislation improving upon regulatory independence. In summary, the focus of this work is to clearly establish NERC's political and financial independence, freeing NERC from outside influences. Achieving this objective is critical for increased stability in Ukraine's power sector and the continued success of GOU's energy sector privatization, as the current legal basis for NERC's authority permits interference from the CabMin and other third-party influences.

A bill providing NERC with political and financial independence was formally registered with the Verkhovna Rada. The bill passed at first reading on January 17, 2001. We have begun working with the FEC Committee of the Verkhovna Rada, which is responsible for the NERC bill, to redraft of the law in the second reading to include additional procedural safeguards and protection of Commission independence.

As we note below, one of the critical features of the bill, which passed on the first reading, is to clarify the status of NERC, as such status directly affects the degree of NERC's political independence. Presently the status of the NERC is defined by Presidential decree as an "executive agency with a special status". Government agencies with "special status" first appeared in Ukraine law by Presidential Decree "On Administrative Reform," 15 December 1999. This phrase itself, however, does not clearly establish that the agency is independent of political controls by other executive agencies. Former Ukraine President Kravchuk, as Chairman of the Verkhovna Rada working committee on the Administrative Reform, has appointed a working group to deal with possible further revisions to this Administrative Reform. Hunton and Williams has been appointed as a member of that committee. To date however, that committee has not yet met, and the Presidential Decree remains unchanged. Therefore, we believe that developing new legislation on NERC remains the most efficient manner in which to establish NERC's independence, and accordingly, we have continued to actively work to design and pass the bill currently being considered by the Verkhovna Rada.

### **C.2.2. Tariff Setting Methodologies and Rate Design**

Another critical issue for the success of GOU's privatization program is clarity in NERC's tariff setting methodologies and continued improvement of rate design. Since Project inception, Hunton & Williams' has worked with NERC on these fundamental tariff issues. Our approach has taken several forms. Most of our assistance has been through our daily, "hands on" work with NERC from our NERC-based Project office. We continue to enjoy good working relationships with NERC counterparts both at the staff and commissioner levels.

With respect to tariff issues, in fall, 2000, USAID created an ad hoc working group on tariffs, of which Hunton and Williams became the chair. By November 2000, the NERC had been recognized as the co-chair of these sessions. The group was designed to develop a tariff methodology to encourage and support the energy sector privatization process. The group included representatives from potential strategic investors, the international donor community, investment banks, NERC and other GOU agencies. The intent of this working group was to clarify NERC's tariff and to serve as a conduit between investors and NERC for informal dialogue regarding tariff levels and rate design.

The working group concluded its operating sessions in December 2000 by agreement with the NERC, that the NERC would convene an "open hearing" on tariff method and tariff policy issues. Hunton and Williams, on behalf of the members of the group, sent a letter to the NERC requesting that such hearings be initiated. The NERC accepted this request, and issued an Order requesting that any interested person, including potential investors, could make written presentations to the NERC by January 13. Subsequently, the Commission extended this date and has been continuously open for additional proposals from investors since January 1.

The NERC then convened an open public hearing on tariff policy issues on January 23, 2001. In preparation for this proceeding, Hunton and Williams contracted with our project partner for economic analysis, NERA, Inc., to analyze for the NERC the investor and other comments received prior to the hearing. The Commission organized the January 23 hearing using a list of issues summarized by the NERA Report. On our request NERA also included a table comparing rate of return to equity invested in distribution utilities in different world jurisdictions. The NERC relied on this table as the basis for developing its position in setting and negotiating details of the tariff method.

On January 28 2001 the NERC issued its proposed revisions to the tariff method, based on the investor comments and results of the open hearing.. Investors have been continually able to comment on additional drafts as they have been prepared by the NERC. Hunton and Williams staff have been engaged in regular frequent meetings with the NERC Commissioners and staff to develop progressive drafts of the tariff method, translate them, and circulate them to investors and donor organizations.

### **C.2.3. Due Process and Regulatory Procedure**

A third issue that permeates our work with NERC is to assist NERC in devising a proper governance mechanism, injecting notions of due process, rule of law, and proper regulatory procedure into NERC's work so that NERC's activities reflect international standards. Our work on due process in this quarter has focused on passage of an appropriate law on NERC independence, as summarized in the discussion at C.5 below. However, we also worked with the NERC to draft a potential resolution on policy for disconnection. Hunton and Williams researched the status of diverse government normative acts related to disconnection, and the legal authority for assurance of a policy on disconnection, and provided the results as a draft resolution the Commission.

### **C.2.4. Algorithm**

Finally, we have continued working with NERC to establish and implement a procedure for modifying the algorithm that currently allocates the flow of funds through the WEM transit clearing accounts mandated by the Electricity Law. The procedure for modifying the algorithm, which Hunton & Williams drafted through consultations and appropriate buy-in by NERC, imposes information requirements and specific mechanisms to propose modifications to and actually modify the algorithms. The procedure also clarifies when and how NERC can declare an emergency situation of the WEM. The declaration of emergency situations by the NERC is a particularly critical problem, since such declaration provide NERC with free reign to modify the allocation of funds to energy sector companies. Both the international donor community and potential strategic investors have criticized NERC's frequent declaration of emergency situations.

## **C.3. ENERGOMARKET**

As explained above, starting in July 2000, we have continued participation in Energomarket working groups as mentioned below.

### **C.3.1 Energomarket Member Contracts**

The Electricity Law requires all WEM Members to have a direct contract with the Energomarket. Hunton & Williams provided a comprehensive analysis of the first draft contracts, and we followed our initial work product with exchanges of draft contracts, specific language, legal research and a line-by-line analysis of the contracts. Development of an improved contract with market members has become a more critical issue as the potential investors have looked more deeply at market relationships. However, there is at present no clear consensus among potential investors as to how the power market might be revised, and therefore also no consensus on how contracts might be properly reformed. We continue to work with the attorneys of the market and the Board to find commercially acceptable modifications of these contracts.

### **C.3.2 Amendments To Members Agreement**

Also as a result of the Electricity Law, certain WEM Members and Project counterparts believed that aspects of the Members' Agreement conflicted with the amended law. Thus, the WEM Board established a task force to review and recommended changes to the Members Agreement. Hunton & Williams participated in this task force and commented on proposed changes. As we believed that the proposed changes were not appropriate at the time, we delivered a letter to the WEM Board and to the CabMin, explaining our reasoning, noting that any required revisions could be managed through amendments only to the contracts. The contracts have not yet been amended, per the paragraph above. As well, no adverse modifications to the Members Agreement have been accepted..

### **C.3.3 Wholesale Electricity Market Law Review**

The head of the Energomarket asked us to comment on draft of revisions to the first reading bill on restructuring of the WEM, commonly referred to as the "Pavlovski Bill" (the "WEM Bill"). In the summer, we provided a very detailed analysis of the bill to the Energomarket and also to the corresponding Verkhovna Rada task force on the WEM. We have continued meeting with the Rada FEC Committee working group on the WEM law and with the Ministry of Fuel and Energy working group on the WEM Law, to find appropriate language to effect a proper transition to the new market structure, in event the law passes. In this quarter we responded to a request from the Minister of Fuel and Energy to analyze what steps would need to be taken, if the WEM Law were to pass in it's then existing form.

### **C.3.4 Debt Issues**

In December, 2000 we learned from the Energomarket that the question of debt restructure had not yet been finished in signed contracts with the 6 oblenergos subject to the first round sale. We also learned that the reason was that the Market in turn had obligations to its suppliers (generating companies) who had not released those debts, and so on, to creditors of the generating companies, etc. .Therefore, Hunton and Williams, working with USAID representative David Dod, drafted and delivered to the Cabinet of Ministers, a proposal for restructuring the debts up the entire line of creditors, using the same structure as had been proposed by the Cabinet in their October 18 2000 resolutions on the tenders of the six oblenergos. One of our specific innovations was to also resolve that part of the debt of generating companies to the state, by use of the debt to the State Reserve. This approach was adopted by the Cabinet, for the first six oblenergos to be privatized. At the same time, the Cabinet extended the period over which restructure was effective to include through the end of December 2000. By the end of February, four of the six had signed restructure agreements.

### **C.3.5 Metering Issues**

Comprehensive and accurate metering are essential pre-requisites to implementing two key goals of our Project: bilateral contracting among WEM Members, and a system of billing and invoicing for a power pool. As such, Hunton & Williams is working with a committee of senior Energomarket staff to define the issues related to proper metering. In the quarter, we completed a paper on solving the metering issues through acquisition of meter, including a schedule of the meters required, their costs, and their justification. We also provided this paper to the EC Fuel Grant program, which has preliminarily agreed to include the cost of acquiring the meters into their grant.

### **C.3.6 Information Technology Support**

Operation of a complex power pool with diverse members imposes a high burden of information technology coordination, ranging from security for emails to complete billing systems. These issues are critical to a properly governed market and the Energomarket has requested our assistance. Working with the Hunton and Williams information technology specialist and market advisor, we have now reached agreement with the Energomarket on the specific equipment that may be needed to effect an improved internal communications system for the market, once they have moved to a new office building. This move is expected to occur over the next few months. Actual acquisition of the equipment, and its installation, is expected to occur in the fourth quarter of the project.

## **C.4. MINISTRY OF FUEL AND ENERGY**

While we previously mentioned our difficulties in beginning our work with MFE, we have overcome those difficulties and are working them on a variety of critical issues affecting privatization, the most critical of which are restructuring sector debt and to continue the positive development of Ukraine's energy sector policy and WEM structure. Our work occurs through bi-weekly and "as needed" meetings with the Minister of Fuel and Energy, his deputy ministers, and the MFE staff. We discuss the three main targets of our work with MFE below.

### **C.4.1 Sector Policy and WEM Structure**

A natural area of cooperation between our Project and the MFE relates to energy sector policy and, of greater concern to the Project, the structure of the WEM. Thus, in response to requests from the Minister we have provided the MFE with two advisory papers related to the WEM law. One was an analysis of how to maintain the physical balance of the market in event the WEM Law passes. The other discussed more general issue of wholesale market pricing. This last was also shared with the Energomarket, the NERC and the Rada FEC.

Starting with the opening of due diligence by the several short-listed investors, we have focused our interest on those specific issues raised by the investors as critical, in

their view, to be put in place prior to the date of tender for the first six oblenergos. Reflecting these sources and positions, we have continued to focus our work on establishing a stable wholesale market structure and well-defined system of governance that can be used to efficiently and transparently address energy sector problems, modifying the existing wholesale market structure if appropriate. We are concurrently working to establish the necessary legal and technical tools to facilitate bilateral contracting between market members, as we mentioned above in C.3.5.

#### **C.4.2 Debt**

Similar to our work with the Energomarket, we are working with the MFE on two related debt issues. First, we are attempting to elaborate the debt restructuring program created by the CabMin for the six oblenergos scheduled for privatization in February 2001. Specifically, the CabMin plan calls for all debt to be paid within five years, with a grace period during the first two years and then subsequent repayment of the debt in quarterly installments over the remaining three years. Our successful effort to assist in restructure of this debt for the first six oblenergos in the current privatization, is described in the section of this Report on Energomarket relations. Our primary mechanism to effect this change however was by use of contacts within the MFE to communicate the documents to the Cabinet of Ministers at the critical times.

#### **C.5. VERKHOVNA RADA**

The Project design assumed relationships with the Verkhovna Rada and, in particular, with the FEC Committee. Based on priorities proposed by the FEC Committee and our ability to meet those priorities within the Project scope of work, we devised a legislative program focused on ensuring a more successful privatization and post-privatization operation of the power sector. To meet our legislative efforts, we scheduled biweekly working meetings with the FEC Committee to discuss and address issues related to one or more laws related to the energy sector. The FEC Committee also invited Hunton & Williams' participation in four "task forces" or topical sub-committees addressing the following broad topics: NERC, wholesale electricity market, sector policy, and privatization. We have also been invited to work with them on oil and gas policy and regulatory issues, but due to resource constraints and policy directions from USAID, we have elected not to work on those topics. Below we describe specific legislative initiatives for which we are advising the FEC Committee.

##### **C.5.1. NERC Law**

The current status of our work on the NERC Independence Law is summarized above in Part C.2.1. The law has passed the first reading and is being readied for a second reading. The history of this work is described in our December 2000 Inception Report and Second Quarterly Report

### **C.5.2 Wholesale Electricity Market Law**

One of the fundamental tasks of our Project is to improve market governance. In late 1999, a bill restructuring the wholesale electricity market passed the Verkhovna Rada at first reading – the WEM Bill. We stated in our last Quarterly Report our belief that the political discord on the bill will likely push any vote on the bill into the first half of 2001. We continue to believe this is the earliest a vote is likely. We are continuing to follow the strategy for this law detailed in our December 2000 Inception Report and Second Quarterly Report.

### **C.5.3 Energy Sector Policy Bill**

A third key legislative initiative of by the FEC Committee is the development of an energy sector policy bill. Regulatory laws in western countries commonly state both policy purposes to be achieved by such laws and performance standards in the implementation of those policies. In Ukraine, regulatory laws typically contain limited statements of policy, and few or no statements of performance standard. Administrative orders from the executive branch of government – the President or the CabMin – fill such legislative policy vacuums. Rather than leave such important decisions to fate, the FEC Committee decided to develop an energy sector policy bill that would identify energy sector policies and standards.

In February 2001, Hunton and Williams provided to the FEC Committee a detailed review of the technical construction of this law, including of its internal consistency and compliance with Ukrainian standards of legal drafting. The FEC Staff requested that a further analysis be provided, of the effectiveness of the law in reaching its stated objectives, and how to correct those parts that may be ineffective. The Hunton and Williams project team expects to deliver such study in March 2001.

## **D. RELATIONSHIPS TO PRIVATIZATION**

USAID's primary privatization advisor to the State Property Fund is DTT. Nevertheless, Hunton & Williams is directly assisting the privatization effort, while continuing our focus of developing the legal and regulatory support to both prepare and sustain Ukraine's power sector for privatization. Aside from our daily interaction and input to the privatization process with DTT through sharing common office space, our work in the currently completed quarter consisted of the following.

- We supported CSFB – the investment bank working with the State Property Fund on the privatization sale, by reviewing and commenting on diverse draft documents related to the implementation of the sale. In particular we provided to DTT, for provision to CSFB, a legal analysis of the draft Purchase and Sale Agreement, and of the State Property Fund tender rules.
- We frequently review and comment in detail on various instruments of the privatization process, including CabMin resolutions, tender notices, draft presidential decrees, and other materials.

- We provided CSFB with legal texts translated into English and advised CSFB on certain Ukrainian legal issues. Along similar lines, we routinely provide DTT with English-translated copies of laws and other normative acts for use in its privatization web site.
- We are working jointly with the NERC and investors to develop a NERC tariff methodology study to support the privatization process.
- We regularly meet with potential strategic investors to explore their views and privatization participation requirements, passing relevant information to DTT and incorporating the same into our work.

## **E. RELATIONSHIPS WITH THE INTERNATIONAL TASK FORCE**

As we previously mentioned, GOU and the principal international donor agencies in Ukraine – EBRD, IMF, the World Bank and USAID – created an international energy Task Force to tackle problems with the Ukraine power sector. The decisions of the Task Force routinely shape and guide the directions of our Project. Within the Task Force, USAID plays a key role directing Task Force activities, including drafting concept papers summarizing the group consensus (or seeking to attain such consensus). For example, Hunton & Williams supports USAID’s Task Force activities by assisting the Task Force to develop comfort letter issues and other issues of investor interest, as well as working to implement the short-, medium- and long-term goals of the Task Force. .

On February 1 and 2, 2001, the Hunton and Williams team assisted USAID to prepare for and attend the periodic meeting of the Intergovernmental Task Force meeting held at the Cabinet of Ministers offices in Kyiv. In that meeting, it was decided (1) to delay the privatization tender date for two months, until April, and (2) to work with the Government on detailed implementation of remaining tasks. Therefore starting in February 2001 we began working with the Task Force and to support and carry out specific tasks in a “matrix” of tasks required or desired for completion of the privatization process. Hunton and Williams has been assigned responsibility for several parts of the Matrix including: development and implementation of a suitable tariff policy and method by the NERC; development and implementation of a disconnect policy to apply to non-paying retail customers; review of many draft “comfort letter” proposals, covering investor concerns not otherwise addressed; drafting instruments related to exit from the transit account by the new ly privatized companies; drafting a NERC resolution related to reimbursement for emergency situations; continuing to develop and pass the law on independence of the regulatory commission; continue to develop the possibility of entering direct (bilateral) contracts for purchase of power by oblenergos; development of an improved power purchase agreement; development of improved methods of management of Energomarket commercial practices; monitoring the issues related to transfer of social infrastructure from oblenergos to local administrations; work with the NERC to raise the limit on market shares that may be held by a single company.

## **F. TRAINING PROGRAM**

Hunton & Williams developed a focused training program to support Project objectives. Rather than the traditional training consisting of courses and lectures, we devised a series of five, week-long training programs. Each program consists of a one day traditional lecture by a consultant in a particular area, followed by four days of hands on training and discussion with each of our GOU counterpart agencies. The purpose of the exercise is to impart a common vocabulary and to discuss a common set of issues among the counterparts. The topics are selected to emphasize particular aspects of our substantive program: regulatory law, basics of regulation, tariffs and rate design, power pools and generation pricing.

The first such course was delivered from December 11 through 15, 2001 on regulatory law and basic principles of regulation. The Verkhovna Rada Fuel and Energy Complex Committee acted as co-sponsor for this course. William Froehlich, Deputy Director of the United States Federal Energy Regulatory Commission Office of Administrative Litigation, and an adjunct Associate Professor of Law at the American University in Washington DC, came to Kiev to deliver the course. On December 11 2001, using facilities of the Verkhovna Rada, he presented a one day session of lectures for 30 counterparts from diverse agencies of the Government of Ukraine, including the NERC, the Antimonopoly Committee, the Committee on Entrepreneurial Policy, the staff of the FEC Committee as well as Members of the Rada, legal staff of the Energomarket, and legal staff of the Ukrenergo. In subsequent days, following the design of the seminar-advisory, he met with focused groups from each of several counterparts, including the oil and gas section of the Ministry of Fuel and Energy, the power sector section of the Ministry of Fuel and Energy, the staff of the Verkhovna Rada FEC Committee, the staff of the NERC, and individually with two Commissioners of the NERC. He also provided training to the local staff of the Hunton and Williams team.

## **G. ADDITIONAL SERVICES**

In the quarter December 2000 to February 2001 Hunton & Williams received a request from USAID to assist the US Embassy energy section staff to assess issues related to operation of a "gas transit pipeline" across Ukraine. In reply, Hunton and Williams prepared an analysis of the issues posed, and delivered this to USAID and to the Embassy staff in mid-February. Hunton and Williams then met with the relevant USAID Embassy staff and discussed the issues. USAID then also forwarded the draft to the World Bank, and in late February, Hunton and Williams met with the cognizant staff of the Bank, in Washington, on several occasions, to review the document and common objectives of the Bank and of USAID in privatization and reform of the Ukraine natural gas sector.. At that meeting the Bank also asked for a suggested task list of technical assistance that would be required to reform the gas sector, and also offered suggestions for how to modify the gas transit pipeline study. Hunton and Williams passed these requests and results to USAID, and is awaiting instructions for how to proceed with this task.